

# A compensation system for eastern europe



**ASSIGN  
BUSTER**

The compensation system in East European countries has been framed by the central planning economy until recently. It means that the companies and its people in this region lack the skills and knowledge of how to work in the highly competitive, fast-changing environment. The free market brought the new system of values and beliefs.

This system is quite contradictory to the one that existed before. Nowadays, East European countries are eagerly learning Western approaches of how to handle the business in these new surroundings. However, there is a reasonable doubt if Western patterns are always applicable and proper for this region. Specifically, I am going to focus on the development of the compensation system. Central planning economy The historical context is important in order to understand how Eastern Europe should be approached. First of all, the whole system of incentives was based on the fulfilling of the plans set by the government.

Thus, the management often chose to mispresent input needs and capacity, in order to get easier targets and, as a result, bonuses from the government. During the long period of time, the ordinary workers were receiving only intangible rewards for the high-quality work, because the work was supposed to be praised itself as a joy. For example, the reward was to have the one's picture on, so called, Board of Respect. Therefore, a strong reverse side developed due to this approach: laziness, inactivity and lack of organization. Later during the Soviet era, the monetary rewards were introduced more widely on all levels. But increases in salaries and bonuses were still dependent on the fulfillment of the plans.

This approach has continuously discouraged quality production compared to quantity. Innovations were poorly rewarded, because they interrupted the fixed schedules, and required new resources, which was perceived as the threat to the fulfilling of the plan. TheoryThe agency system reflects the differences in the goals between the government (the principal) and the directors of the plants/factories (agents). The transaction-cost theory " suggests that people will make false or empty threats and promises to get better deals from one another" (Pfeffer 7).

These theories explain why the management of the factory chose to mispresent information to the government. The goal of the management was to receive the highest possible bonuses. On the other side, the goal of the government was to get the planned numbers. The mismatch in the goals led to the misleading information, and unfulfilled promises. These models imply that work is " hard and aversive..

. the only way people can be induced to work is through some combination of rewards and sanctions" (Pfeffer 7). And Eastern European compensation system had been structured closely along this belief until lately. Market EconomyEastern Europe is rapidly emerging into the relatively new market economy environment. It fosters competition and innovations, flexibility and ability to meet customers' needs. The new working place requires high level of responsibility, creativity and motivation to succeed.

All of these features were held down by the old compensation system. Thus, the fresh rewards were brought in by the investors from West to reform local managers into someone they have never been. Money, vacations, banquets,

corporate parties and fine offices supposedly should develop the lacking characteristics and enhance the performance. But is not Eastern Europe falling into the same trap, it has been during Soviet times, in terms of compensation and motivation? To me, the new compensation system closely resembles the central planning one. There are once again certain benefits or lack of ones in front of Eastern Europeans.

But this time they are offered by the new owners/investors from abroad. What the rewards don't do Both reward systems fail in their main task for Eastern Europe, which is developing trust, creativity, responsibility, etc. This region needs drastic changes in the attitudes and beliefs about work, in order to be successful in the highly competitive global market. There is a common problem of employees regarding management as informers and watchers. Among other drawbacks, a personal involvement is not perceived as a positive feature. For example, the primary reward for seniority in many manufacturing firms was to be placed on a shift where individual effort could be minimized.

The reward system does work in a short run, until the task or plan is completed. And it is well understood that people work to earn the living. But at certain point the happiness from the money increases at the diminishing rate. According to Dimitri Medvedovski's lecture, when this point is reached, the money is no longer as strong of a drive.

According to Herzberg, Frederick, the payment is the hygiene factor. It means that it decreases the dissatisfaction, but it does not motivate for better performance. Also the lack of reward is perceived as a punishment,

which resembles the coercive style of Soviets. West management brought to East a well developed concept of teamwork which supposes to bust the productivity. However, it is not possible when the individuals are competing against each other in order to gain the prize. Solution The rewards are the easiest ways to address the goals.

“ Tell people that their income will depend on their productivity or performance rating, and they will focus on numbers” ( Kohn 6). Therefore, a greater payment for the task is a controlling tool, and the controlling kills the interest instantly. It is obvious that people like to be paid, but even more so, they like to do what they like. The new companies have to think how they can empower their employees, so that employees would want to change in order to fit the new environment.

Education/training is an integral part of this adjusting process. Employees should feel that they have the skills and knowledge to make decisions. The companies should strive to develop a unique corporate culture. It should take into account the cultural circumstances, and mostly be based on the developing of mutual respect and trust, teaching people to take responsibilities and be accountable.

It is a very time consuming project, but there is no faster way to reform Eastern European mentality. It is reached through the education and training, which is greatly paid off in the longer run. The western companies should be ready to blend certain aspects. The new companies should be flexible in terms of what should be changed and what is kept. For example, the foreign owned company in Russia had to reintroduce the Soviet respect

boards with pictures of people whose performance was outstanding, and also to give small medals to well performing employees. It made them feel important, visible and noticed.

Thus, it might be helpful to make a mixed compensation system, with respect to what workers are used to. Conclusion There is a lot of cultural luggage that drags East European countries behind, and it has to be dealt with, not to be simply denied. This region has a unique history, which can not be forgotten and substituted by the modern West flows. These countries have to work on adjusting to the new environment, to the learning new ways. But, most important, East European countries have to take time to develop their own advantages and strategies that will fit perfectly. It is the hardest part, as for years employees were discouraged to speak up, to introduce something new or to take responsibilities.

This is the task of changing the mentality, which might take years. The reward/compensation system by itself will never be able to accomplish it. But smartly integrated with other factors and motivators, it will have the positive impact it has been designed for from the beginning.